9461
Q-35283

22
2

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

O
92-2240

FORM 10-Q

X Quarterly Report Under Section 13 or 15(d) of the Securities Exchange Act of 1934

For Quarter Ended: June 30, 1992

____ Transition Report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

Commission File Number: 0-10773

SUNRISE BANCORP
(exact name of registrant as specified in its charter)

California	94-2819328
(State or other jurisdiction of Incorporation or Organization)	(I.R.S. Employer Identification No.)
5 Sierragate Plaza, Roseville, CA	95678
(Address of principal executive offices)	(Zip code)

(916) 786-7080
(Registrant's telephone number, including area code)

Not Applicable
(Former name, former address and former fiscal year, if changed since last report)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Sections 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

YES x No ____

Number of shares of Common Stock issued and outstanding as of July 31, 1992: 4,060,637

The total number of pages in this Form 10-Q is twenty-two (22).

Microfilmed By Q-Data Corporation St. Petersburg, FL

SUNRISE BANCORP

QUARTERLY REPORT ON FORM 10-Q

INDEX

		Page No.
PART I.	**FINANCIAL INFORMATION**	
Item 1	**Financial Statements:** Consolidated Statements of Condition June 30, 1992 and December 31, 1991	3
	Consolidated Statements of Operations for the three and six months ended June 30, 1992 and 1991	4
	Consolidated Statements of Cash Flows for the six months ended June 30, 1992 and 1991	5
	Notes to Consolidated Financial Statements	6
Item 2	Management's Discussion and Analysis of Financial Condition and Results of Operations	11
PART II	**OTHER INFORMATION**	
Item 1	Legal Proceedings	21
Item 6	Exhibits and Reports on Form 8-K	21
SIGNATURES		22

SUNRISE BANCORP AND SUBSIDIARIES

Consolidated Statements of Condition
June 30, 1992 and December 31, 1991
(unaudited)

(dollar amounts in thousands)

Assets	June 30, 1992	December 31, 1991
Cash and due from banks	$37,849	$28,172
Interest bearing deposits	1,089	1,586
Federal funds sold	8,000	6,000
Securities purchased under agreements to resell	37,000	22,000
Total cash and cash equivalents	83,938	57,758
Investment securities(market value of $14,215 in 1992 and $12,504 in 1991)	14,028	12,304
Mortgage loans held for sale	47,254	59,474
Loans (net of deferred fees and costs of $506 in 1992 and $497 in 1991)	132,031	126,720
Less allowance for loan losses	2,112	2,174
Net loans	129,919	124,546
Premises and equipment	2,737	2,731
Other real estate owned	2,655	7,535
Other assets	3,357	4,314
	$283,888	$268,662
Liabilities and Shareholders' Equity		
Deposit liabilities:		
Noninterest bearing	$155,011	$131,526
Interest bearing	71,782	71,875
Total deposit liabilities	226,793	203,401
Other borrowings	32,421	40,169
Other liabilities	2,213	3,963
Total liabilities	261,427	247,533
Commitments and contingent liabilities (note 2)		
Shareholders' equity:		
Preferred stock, no par value. Authorized 20,000,000 shares; none issued	–	–
Common stock, no par value. Authorized 20,000,000 shares; issued 4,060,637 shares in 1992 and 3,819,407 shares in 1991	17,770	16,902
Retained earnings	4,691	4,227
Total shareholders' equity	22,461	21,129
	$283,888	$268,662

See accompanying notes to consolidated financial statements.

SUNRISE BANCORP AND SUBSIDIARIES

Consolidated Statements of Operations
For the three and six months ended June 30, 1992 and 1991
(unaudited)

(dollar amounts in thousands, except per share data)	Three months ended June 30, 1992	Three months ended June 30, 1991	Six months ended June 30, 1992	Six months ended June 30, 1991
Interest income:				
Interest on loans	$2,791	$4,166	$5,631	$8,426
Interest on mortgage loans held for sale	1,340	1,050	2,580	1,634
Interest on investment securities	221	205	395	366
Interest on Federal funds sold and repurchase agreements	231	353	548	675
Interest on deposits	16	88	30	149
Total interest income	4,599	5,862	9,184	11,250
Interest expense:				
Interest on deposit liabilities	746	2,209	1,612	4,695
Interest on other borrowings	795	855	1,642	1,355
Total interest expense	1,541	3,064	3,254	6,050
Net interest income	3,058	2,798	5,930	5,200
Provision for loan losses	290	600	320	700
Net interest income after provision for loan losses	2,768	2,198	5,610	4,500
Other income:				
Service charges and fees	410	309	824	652
Loan sales	2,427	1,338	3,577	2,048
Gain (loss) on sale of investment securities	–	15	(41)	18
Other	6	610	9	610
Total other income	2,843	2,272	4,369	3,328
Other expenses:				
Salaries and employee benefits	2,003	1,641	3,718	2,963
Occupancy	395	318	791	606
Furniture and equipment	275	189	506	349
Other	1,740	1,112	3,107	1,742
Total other expenses	4,413	3,260	8,122	5,660
Income before provision for income taxes	1,198	1,210	1,857	2,168
Provision for income taxes	492	498	764	891
Net income	$706	$712	$1,093	$1,277
Net income per share	$0.17	$0.20	$0.27	$0.35

See accompanying notes to consolidated financial statements.

SUNRISE BANCORP AND SUBSIDIARIES

Consolidated Statements of Cash Flows
For the six months ended June 30, 1992 and 1991
(unaudited)

(dollar amounts in thousands)	Six months ended June 30, 1992	1991
Operating activities:		
Net income	$1,093	$1,277
Adjustments to reconcile net income to net cash provided (used) by operating activities:		
Accretion of deferred loan fees and costs	(395)	(852)
Net change in mortgage loans held for sale	12,220	(21,664)
Servicing premiums	(96)	(67)
Provisions for loan and other real estate owned losses	453	700
Depreciation and amortization	518	436
Net change in other assets	913	(1,189)
Net change in other liabilities	(1,750)	(1,178)
Net cash provided (used) by operating activities	12,956	(22,537)
Investing activities:		
Purchases of investment securities	(5,997)	(10,807)
Sales of investment securities	2,819	196
Maturities and repayments of investment securities	1,421	255
Net decrease in loans	(6,562)	(7,024)
Sales of other real estate owned	6,011	–
Net purchases of premises and equipment	(352)	(601)
Net cash used by investing activities	(2,660)	(17,981)
Financing activities:		
Increase in deposit liabilities	23,392	96,272
Increase (decrease) in other borrowings	(7,748)	19,125
Issuance of common stock	240	–
Net cash provided by financing activities	15,884	115,397
Increase in cash and cash equivalents	26,180	74,879
Cash and cash equivalents at beginning of period	57,758	33,168
Cash and cash equivalents at end of period	$83,938	$108,047
Supplemental disclosures of cash flow information:		
Cash paid during the period for:		
Interest	$3,216	$6,126
Income taxes	$10	$1,421
Supplemental schedule of noncash investing and financing activities:		
Other real estate owned acquired through foreclosure on assets securing loans	$1,264	$2,840
Stock dividend	$628	–

See accompanying notes to consolidated financial statements.

SUNRISE BANCORP AND SUBSIDIARIES

Notes to Consolidated Financial Statements
June 30, 1992
(unaudited)

1) **Basis of Presentation**

The accompanying consolidated financial statements have been prepared in accordance with generally accepted accounting principles for interim financial information and with the instructions to Form 10-Q and Rule 10-01 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included. Operating results for the six months ended June 30, 1992 are not necessarily indicative of the results that may be expected for the year ending December 31, 1992.

The consolidated financial statements include the accounts of Sunrise Bancorp (the "Company") and its wholly-owned subsidiaries, Sunrise Bank of California (the "Bank"), and Western Sunrise Mortgage Corporation ("Western Sunrise"), with all material intercompany accounts and transactions eliminated. For further information refer to the financial statements and notes thereto included in the Company's annual report on Form 10-K for the year ended December 31, 1991.

2) **Commitments and Contingent Liabilities**

The Bank has been named as defendant in two separate complaints presently pending in the Superior Court of the State of California. Each of these complaints seek recovery from the Bank of sums allegedly withdrawn through the use of forged or unauthorized signatures, interest, costs of suit, and in some instances unspecified exemplary and punitive damages.

The two complaints involve pension and profit sharing deposit accounts which were administered by First California Consultants, Inc., formerly controlled by James B. Nicholson. The complaints outstanding total an aggregate sum of approximately $940,000, not including claims for accrued interest or exemplary and punitive damages. The Bank and its attorneys continue to investigate each of the claims, and intend to vigorously defend against any claims they believe are without merit.

As a result of its ongoing investigation of the complaints and claims described above and other related claims, the Bank has established and maintained a financial statement reserve by charges to operations of $5,928,000 in 1988, 1989, and 1991 and $80,000 in the current year. After settlement of other related claims and the expenditure of legal fees and costs, the reserve at June 30, 1992 totaled $472,413. The final resolution of the actual liability for the remaining claims, however, cannot presently be determined.

Note 2 (continued)

The Company and its subsidiaries are at times subject to other threatened or filed legal actions with regard to matters arising out of the conduct of their businesses. It is the opinion of management, after consulting with legal counsel, that the resulting liability, if any, as a result of these legal actions are not currently anticipated to materially affect the consolidated financial position of the Company.

In the normal course of business, Western Sunrise sells mortgage loans to FHLMC, FNMA, and private investors which are subject to various standard recourse provisions. These provisions generally allow the investor to require Western Sunrise to repurchase the loan due to nonperformance by the borrower during the first six months of the loan or due to inadequate underwriting. In the first six months of 1992, Western Sunrise sold loans under these recourse provisions with principal balances totaling $182 million to FHLMC, $92 million to FNMA, and $182 million to other private investors. Western Sunrise repurchased loans with principal balances totaling approximately $850,000 in the first half of 1992, $603,000 in 1991 and $287,000 in 1990. The loans repurchased by Western Sunrise have not resulted in material losses to the Company.

3) Regulatory Matters

On July 16, 1991, the Bank entered into a voluntary informal agreement or Memorandum of Understanding (the "Memorandum") with the Federal Deposit Insurance Corporation (the "FDIC") and the Superintendent of Banks of the State of California (the "Superintendent") to address certain matters arising from a joint examination conducted by the FDIC and the Superintendent dated February 8, 1991. These matters necessitated the development by the Bank, FDIC, and the Superintendent of a comprehensive corrective program. Significant aspects of this program as detailed in the Memorandum include commitments of the Bank to: (a) retain qualified management, including a chief executive officer with proven ability in managing a bank of comparable size and characteristics; (b) maintain an adjusted primary capital ratio of not less than 8.0% by August 31, 1991 and thereafter; (c) eliminate from its books, by charge-off or collection, certain criticized assets and reduce other criticized assets to specified levels at various dates through July 16, 1992; (d) adopt and implement certain policies acceptable to the FDIC and the Superintendent, including (1) lending and collection policies, (2) an asset/liability management policy, (3) an investment policy incorporating securities trading guidelines, (4) a liquidity policy, and (5) a policy which addresses the internal routines and controls of the Bank; (e) adopt and implement a revised executive compensation plan; (f) adopt and implement a plan to diversify the Bank's loan portfolio which will result in maximum concentration of real estate acquisition, construction and development loans which does not exceed 300 percent of total primary capital as of January 16, 1992, 150 percent as of July 16, 1992 and 100 percent as of November 16, 1993; (g) devise a mid-range strategic plan for the period 1991-1993 which reflects changes in the operations of the Bank which will be necessary to comply with the Memorandum and which

Note 3 (continued)

focuses on maintaining future growth at a level which does not exceed 10% per year measured from December 31, 1990; (h) not pay cash dividends without approval in advance by the FDIC or which would reduce the Bank's adjusted primary capital ratio to less than 8.0%; and (i) furnish quarterly written progress reports to the FDIC and the Superintendent detailing the form and manner of any actions taken to comply with the Memorandum. The provisions of the Memorandum will remain effective except to the extent that, and until such time as, any of its provisions are modified, terminated, suspended or set aside by the FDIC and Superintendent.

Management believes that the Bank is currently in compliance with all requirements of the Memorandum. However, there can be no assurance that the Bank will remain in compliance. Furthermore, compliance is ultimately determined by the FDIC during subsequent examinations of the Bank. Should the Bank fail to comply in a material fashion with the Memorandum, certain actions may be taken by the FDIC or Superintendent which include but are not limited to: (1) finding senior management unqualified to meet the requirements of the Memorandum; (2) issuing an administrative order, such as a Cease and Desist Order which can be judicially enforced; and (3) assessing fines and penalties against the Bank, its officers, and directors.

4) Subsequent Events

In July 1992, the Company entered into a Definitive Agreement to sell Western Sunrise to Harbourton Acquisition Corporation. The sale has been approved by the Board of Directors of Sunrise Bancorp, but it is subject to the completion of due diligence by each party and regulatory approval. Under the terms of the Definitive Agreement, the sales price will be approximately $12,800,000 which will result in an estimated after tax gain of $4,000,000 to the Company. It is anticipated that the transaction will be consummated and recorded in the third quarter of 1992.

The pro forma financial information on the following pages has been prepared to illustrate the effect of removing the operations of Western Sunrise from the Statement of Condition as of June 30, 1992, and the Statements of Operations for the six months ended June 30, 1992 and the year ended December 31, 1991.

Note 4 (continued)

Sunrise Bancorp and Subsidiaries
Pro Forma Condensed Statement of Condition (unaudited)
June 30, 1992

(dollar amounts in thousands)

	Actual June 30, 1992	Pro forma Adjustments	Pro forma June 30, 1992
Assets			
Cash and due from banks	$37,849	($1,184)	$36,665
Interest bearing deposits, fed funds sold, repurchase agreements and investment securities	60,117	–	60,117
Mortgage loans held for sale	47,254	(36,785)	10,469
Net loans	129,919	15	129,934
Premises and equipment and other assets	8,749	(400)	8,349
	$283,888	($38,354)	$245,534
Liabilities and Shareholders' Equity			
Deposit liabilities:			
Noninterest bearing	$155,011	$602	$155,613
Interest bearing	71,782	251	72,033
Total deposit liabilities	226,793	853	227,646
Other borrowings	32,421	(32,421)	–
Other liabilities	2,213	(1,132)	1,081
Total liabilities	261,427	(32,700)	228,727
Common Stock	17,770	(1,100)	16,670
Retained earnings	4,691	(4,554)	137
Total shareholders' equity	22,461	(5,654)	16,807
	$283,888	($38,354)	$245,534

See the notes to the pro forma statements on the following page.

Note 4 (continued)

Sunrise Bancorp and Subsidiaries
Pro Forma Condensed Statements of Operations (unaudited)
For the six months ended June 30, 1992 and the year ended December 31, 1991

(dollar amounts in thousands, except per share data)	Six months ended June 30, 1992			Year ended December 31, 1991		
	Actual	Adjustments	Pro forma	Actual	Adjustments	Pro forma
Interest income	$9,184	($2,117)	$7,067	$21,126	($2,692)	$18,434
Interest expense	3,254	(1,644)	1,610	9,852	(2,407)	7,445
Net interest income	5,930	(473)	5,457	11,274	(285)	10,989
Provision for loan losses	320	–	320	1,250	–	1,250
Loan sales	3,577	(3,577)	–	5,205	(5,098)	107
Other income	792	(401)	391	1,714	(883)	831
Total other income	4,369	(3,978)	391	6,919	(5,981)	938
Salaries and employee benefits	3,718	(1,541)	2,177	6,205	(1,975)	4,230
Other expense	4,404	(1,121)	3,283	7,479	(1,175)	6,304
Total other expense	8,122	(2,662)	5,460	13,684	(3,150)	10,534
Income before income taxes	1,857	(1,789)	68	3,259	(3,116)	143
Tax provision	764	(735)	29	1,339	(1,280)	59
Net income	$1,093	($1,054)	$39	$1,920	($1,836)	$84
Net income per share	$0.27	($0.26)	$0.01	$0.54	($0.52)	$0.02

(1) The adjustments to the Pro Forma Condensed Statement of Condition at June 30, 1992 consist of the elimination of all asset, liability and equity accounts of Western Sunrise including its retained earnings.

(2) The adjustments to the Pro Forma Condensed Statements of Operations consist of the elimination of the income and expenses of Western Sunrise for the six months ended June 30, 1992 and for the year ended December 31, 1991. The adjustments do not include any estimated income derived from the redeployment of capital.

(3) The estimated gain on the sale of Western Sunrise was not included in the adjustments to the Pro Forma Condensed Statements of Operations.

ITEM 2 - MANAGEMENTS DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Although the following discussion concerns the consolidated financial position and results of operations of Sunrise Bancorp and Subsidiaries (the "Company"), the discussion relates primarily to Sunrise Bank of California (the "Bank") and Western Sunrise Mortgage Corporation ("Western Sunrise") as the Company's principal subsidiaries.

Liquidity Management

Liquidity management requires that sufficient cash is available at all times to meet financial commitments. The Company's need for liquidity arises principally from deposit withdrawals, repayment of debt, and increases in loans and other assets. Liquidity of the Company is also affected by the monetary and fiscal policies of the Federal Government. The Company's liquid assets, excluding mortgage loans held for sale in the secondary market, comprised 36.6% and 26.8% of total assets (net of mortgage warehouse debt) at June 30, 1992 and December 31, 1991, respectively. The increase in the liquidity ratio of the Company at June 30, 1992 reflects the high level of overnight investments resulting from a sharp increase in demand deposits at the end of June. Based on average balances for the first half of 1992, the net liquidity ratio was 26.0%. A significant portion of the Company's demand deposits are serviced by the corporate banking group which offers automated banking services to middle market companies, including property management companies, escrow and title companies, healthcare industry companies and other entities which hold large sums as fiduciaries. At June 30, 1992, the ending demand deposits of the corporate banking group, which are principally comprised of accounts from a single entity, totaled $136 million compared to an average balance for the six months of $103 million. Since the deposit levels in the corporate banking group are subject to daily fluctuation, the Bank maintains a significant portion of the corporate banking deposits in short term liquid assets.

In past years, the Bank has partially funded its liquidity needs through the acquisition of time deposits, generally in individual amounts of approximately $100,000, from financial institutions outside of its immediate market area. However, due to the growth in core deposits, the Bank has elected to reduce the level of these time deposits and at June 30, 1992 the Bank did not have any out of area time deposits compared to $37.8 million at June 30, 1991.

Western Sunrise funds its current loan production through the use of a warehouse line of credit with a financial institution. The maximum aggregate commitment under the line of credit is $65 million. Western Sunrise has borrowed $32,421,000 and $40,169,000 under this line of credit as of June 30, 1992 and December 31, 1991, respectively. The Company is a guarantor of a portion of the current credit accommodation. As discussed in Note 4 to the Consolidated Financial Statements, the Company has signed a Definitive Agreement to sell Western Sunrise. In the event that the sale is completed, the Company will no longer maintain the line of credit as a funding source, nor will it be a guarantor on the note. The absence of the line of credit is not expected to have any impact on the liquidity of the Company.

As an additional source of liquidity, the Bank is eligible to borrow funds on an overnight basis from the Federal Reserve Bank of San Francisco. The maximum available advance is dependent upon the dollar total of the Bank's investment securities pledged to collateralize such borrowings. At June 30, 1992, the Bank had investment securities in the aggregate principal amount of $2.6 million eligible for pledging as collateral at the Federal Reserve Bank. The Bank may also borrow funds from investment brokerage firms to the extent that investment securities can be pledged as collateral. The Bank had investment securities with an aggregate principal balance of $10.4 million at the brokerage firms which were available for pledging on June 30, 1992. In order to further enhance its liquidity sources, the Bank has an informal agreement with a major financial institution to borrow up to $5 million in overnight funds.

As a result of industry deregulation, the Bank can vary the rates and, to a limited degree, the terms of the deposits it offers in order to acquire the funds necessary for lending and other operations. The rates paid on these deposits vary, but generally are set at a level competitive with major California banks. The aggregate maturities and interest rate sensitivities of all its investments, loans and deposits are monitored within specific time frames.

Management attempts to adjust the interest rates paid on various rate-sensitive deposits to regulate the volume of such deposits in maturity ranges that correspond to the Ba `s needs and interest rate expectations. In developing strategies to attain the goal of minimizing interest rate risk, and maximizing the net interest margin, management considers such external factors as current and projected economic conditions, governmental spending, and monetary policy.

The following table illustrates the cumulative repricing/maturity intervals of all interest earning assets and interest bearing liabilities over several time frames and the cumulative gap at June 30, 1992 and 1991. Interest earning assets include variable rate instruments, which are presented in time frames that correspond to the earlier of initial repricing dates or scheduled principal amortization or maturity dates, and fixed rate instruments, which are presented in time frames that correspond to scheduled principal amortization or maturity dates. All interest bearing liabilities, other than time deposits, carry variable rates of interest that are repricable immediately. Time deposits are presented in time frames that correspond to scheduled maturity dates.

(dollar amounts in thousands)

June 30, 1992	One day	3 months or less	6 months or less	1 year or less	5 years or less	Totals
Interest earning assets:						
Loans (1)	$88,386	$91,796	$99,716	$111,240	$141,859	$179,914
Investment securities	–	3,602	3,602	3,602	11,619	14,028
Federal funds sold and repurchase agreements	45,000	45,000	45,000	45,000	45,000	45,000
Interest bearing deposits	–	1,322	1,322	1,322	1,322	1,322
Total interest earning assets	$133,386	$141,720	$149,640	$161,173	$199,800	$240,264
Percentage of total assets	47.0%	49.9%	52.7%	56.8%	70.4%	84.6%
Interest bearing liabilities:						
Savings accounts	$2,165	$2,165	$2,165	$2,165	$2,165	$2,165
Interest checking accounts	6,199	6,199	6,199	6,199	6,199	6,199
Money market deposit accounts	45,444	45,444	45,444	45,444	45,444	45,444
Time deposits of $100,000 or more	–	3,057	3,676	4,176	4,678	4,678
Other time deposits	–	7,382	9,831	11,044	13,269	13,296
Other borrowings	32,421	32,421	32,421	32,421	32,421	32,421
Total interest bearing liabilities	$86,229	$96,668	$99,536	$101,449	$104,176	$104,203
Percentage of total liabilities	33.0%	37.0%	38.1%	38.8%	39.8%	39.9%
Cumulative gap	$47,157	$45,052	$50,104	$59,724	$95,624	$136,061

June 30, 1991	One day	3 months or less	6 months or less	1 year or less	5 years or less	Totals
Interest earning assets:						
Loans (1)	$117,002	$119,839	$125,110	$140,720	$147,507	$198,934
Investment securities	5,489	6,413	6,413	7,409	15,995	17,978
Federal funds sold and repurchase agreements	72,630	72,630	72,630	72,630	72,630	72,630
Interest bearing deposits	–	3,862	8,719	9,016	9,016	9,016
Total interest earning assets	$195,131	$202,544	$213,872	$229,775	$245,148	$298,558
Percentage of total assets	60.0%	62.2%	65.7%	70.6%	75.3%	91.1%
Interest bearing liabilities:						
Savings accounts	$1,705	$1,705	$1,705	$1,705	$1,705	$1,705
Interest checking accounts	3,551	3,551	3,551	3,551	3,551	3,551
Money market deposit accounts	50,590	50,590	50,590	50,590	50,590	50,590
Time deposits of $100,000 or more	–	20,831	30,165	31,867	32,697	32,697
Other time deposits	–	28,784	35,677	39,986	42,745	42,770
Other borrowings	45,238	45,238	45,238	45,238	45,238	45,238
Total interest bearing liabilities	$101,084	$150,679	$166,926	$172,937	$176,526	$176,551
Percentage of total liabilities	32.9%	49.0%	54.3%	56.3%	57.4%	57.4%
Cumulative gap	$94,047	$51,865	$46,946	$56,838	$68,622	$120,007

(1) Loans include nonaccrual loans and mortgage loans held for sale.

Capital Resources

Capital serves as a source of funds for the acquisition of fixed and other assets, and protects depositors against potential losses. The Company's leverage ratio (Tier 1 capital divided by total average assets) was 8.82% at June 30, 1992 compared to 9.21% at December 31, 1991. The decline in the leverage ratio of the Company was due to growth in average assets from $229.4 million in the fourth quarter of 1991 to $254.7 million in the quarter ended June 30, 1992. During the first six months of 1992, the Company increased its capital base through the retention of earnings and the issuance of common stock through a private offering. Proceeds from the private offering in the amount of $240,000 were received during the first six months of 1992 and the total proceeds generated through the offering as of June 30, 1992 amounted to $1,640,000.

On April 2, 1992, the Company declared a five percent stock dividend receivable by shareholders of record on April 13, 1992. After issuance of the 193,230 shares of common stock for the stock dividend, the total shares of common stock outstanding at June 30, 1992 were 4,060,637.

The following table illustrates various capital ratios of the Company, as compared to current and future regulatory minimums as of June 30, 1992:

	June 30, 1992	Regulatory Minimum
Leverage ratio	8.82%	3.00%
Tier 1 capital to risk-weighted assets	12.55%	3.63% (1)
Total capital to risk-weighted assets	13.73%	7.25% (2)

(1) Effective December 31, 1990 and scheduled to increase to 4.00% on December 31, 1992
(2) Effective December 31, 1990 and scheduled to increase to 8.00% on December 31, 1992

Banking organizations anticipating significant asset growth or which are not highly rated by their primary federal regulators are expected to maintain leverage ratios well in excess of the minimum, at approximately 4% to 5%.

The Bank has entered into a voluntary informal agreement with its regulators under which it has agreed to maintain a minimum adjusted primary capital ratio (equity capital plus loan loss reserves divided by total gross average assets for the quarter under measurement) of 8% effective August 31, 1991. The Bank's primary capital ratio as of June 30, 1992 was 8.71%. The terms of the informal agreement are discussed further in Note 3 to the consolidated financial statements.

The consummation of the sale of Western Sunrise, if finalized, is expected to supplement the capital of the Company. Under the existing terms of the Definitive Agreement the total capital of the Company is expected to increase by approximately $4 million upon closing of the sale. See note 4 to the Consolidated Financial Statements for further discussion of the potential sale of Western Sunrise.

Results of Operations

The Company recorded consolidated net income of $1,093,000 ($.27 per share) during the first half of 1992 compared to $1,277,000 ($.35 per share) during the corresponding period in 1991. The decline in net income during 1992 reflects the impact which the sluggish local real estate economy has had on the Bank's loan portfolio and the higher operating costs to service additional mortgage loan volume and nonperforming loans. The slowdown in the real estate market

contributed to the reduction of $522,000 in loan fee income recognized on real estate loans, an increase in interest lost on nonperforming assets of approximately $200,000, and an increase in loan collection costs associated with real estate loans of $216,000 during the first half of 1992. The surge in mortgage loan volume and the Bank's concentration on demand deposit accounts have combined to increase total noninterest expense in 1992 by $2,462,000 (43.5%) over the first six months of 1991. The consolidated net income for the second quarter of 1992 amounted to $706,000 ($.17 per share) compared to $712,000 ($.20 per share) in the second quarter of 1991.

The following table illustrates the net income (loss) of each member of the consolidated group for the three and six months ended June 30, 1992 and 1991:

(dollar amounts in thousands)	Three months ended June 30, 1992	1991	Six months ended June 30, 1992	1991
Sunrise Bancorp	$(267)	$ (97)	$ (335)	$(147)
Sunrise Bank of California	197	179	374	537
Western Sunrise Mortgage Corporation	776	630	1,054	887
Consolidated net income	$706	$712	$1,093	$1,277

The pending sale of Western Sunrise may have an impact on the future short term earnings of the Company. As shown above, Western Sunrise has contributed significantly to the Company's net income during the last two years. However, the Company plans to utilize the additional capital generated from the sale to provide for the future growth and stability of the Bank. See note 4 to the Consolidated Financial Statements for further discussion of the pending sale of Western Sunrise.

Net interest income, the difference between interest earned on loans and other investments and interest paid on deposits and other borrowings, is the most significant component of the Company's revenues. The Company's net interest income before provision for loan losses was $5,930,000 in the first six months of 1992, a $730,000 (14.0%) increase over the first half of 1991. The increase in net interest income was accomplished through growth in average earning assets of the Company of 18.1%, from $223,175,000 in the first six months of 1991 to $263,619,000 in the first six months of 1992. The net margin of the Company increased slightly in the first half of 1992 to 5.1% from 5.0% in 1991 as the Bank has focused on increasing the level of noninterest bearing demand deposits. During 1992, demand deposits comprised 62.0% of the average deposits compared to only 20.6% in 1991. The positive impact which the changes in deposit mix had on the net interest margin was partially offset by a decline in discount accretion earned on the Bank's real estate loans. In the first half of 1992, discount accretion on real estate loans totaled $271,000 compared to $793,000 in the first half of 1991. The decline in discount accretion during 1992 is a reflection of the significant decrease in the origination of real estate loans which began late in 1990 and has continued during 1992 as the Bank diversifies its loan portfolio. The origination of speculative real estate loans is limited by the informal agreement discussed in Note 3 to the Consolidated Financial Statements. The net interest margin was also negatively impacted by the increased level of nonperforming assets during 1992. The prime rate as published from time to time in the Western edition of the Wall Street Journal averaged 6.50% and 8.95% in the first six months of 1992 and 1991, respectively.

The following table sets forth average assets, major deposit categories, other liabilities and shareholders' equity; interest income earned and interest expense paid; average rates earned and expensed and the net interest margin for the six months ended June 30, 1992 and 1991:

	1992			1991		
(dollar amounts in thousands)	Average Balance	Interest	Average Yield	Average Balance	Interest	Average Yield
Assets:						
Interest earning assets:						
Loans (1)	$190,755	$9,211	9.6%	$173,667	$10,060	11.6%
Investment securities	12,668	395	6.2%	8,918	368	8.2%
Federal funds sold and securities purchased under agreements to resell	27,446	546	4.0%	22,884	675	5.9%
Interest bearing deposits	1,280	30	4.7%	4,345	149	6.9%
Total interest earning assets	232,149	$9,184	7.9%	209,814	$11,250	10.8%
Allowance for loan losses	(2,057)			(2,005)		
Cash and due from banks	23,915			9,943		
Premises and equipment and other assets	9,612			5,423		
	$263,619			$223,175		
Liabilities and Shareholders' Equity:						
Interest bearing liabilities:						
Savings accounts	$1,262	$25	4.0%	$1,726	$46	5.3%
Interest checking accounts	7,031	114	3.2%	3,740	79	4.2%
Money market deposit accounts	40,304	781	3.9%	43,299	1,270	5.9%
Time deposits of $100,000 or more	5,515	143	5.2%	37,213	1,385	7.4%
Other time deposits	20,493	549	5.4%	52,259	1,935	7.4%
Other borrowings	44,397	1,642	7.4%	28,551	1,355	9.5%
Total interest bearing liabilities	119,002	3,254	5.5%	166,788	6,050	7.3%
Demand deposits	121,646			35,815		
Other liabilities	1,176			2,901		
Total liabilities	241,824			205,504		
Shareholders' equity	21,795			17,671		
	$263,619			$223,175		
Net interest income and margin (2)		$5,930	5.1%		$5,200	5.0%

(1) Average loans include nonaccrual loans and mortgage loans held for sale.

(2) Net interest margin is computed by dividing net interest income by total average interest earning assets and is annualized.

The following table shows the approximate effect on net interest income of volume and rate changes for the six months ended June 30, 1992 and 1991. Changes which are the combined result of volume and rate changes are allocated in proportion to the volume and rate changes.

(dollar amounts in thousands)	1992 vs. 1991		
	Volume	Rate	Total
Increase (decrease) in interest income:			
Loans	$929	($2,778)	($1,849)
Investment securities	131	(102)	29
Federal funds sold	119	(246)	(127)
Interest bearing deposits	122	(241)	(119)
	1,301	(3,367)	(2,066)
Increase (decrease) in interest expense:			
Savings accounts	(11)	(10)	(21)
Interest checking accounts	57	(22)	35
Money market deposit accounts	(82)	(407)	(489)
Time deposits of $100,000 or more	(908)	(314)	(1,222)
Other time deposits	(951)	(435)	(1,386)
Other borrowings	638	(351)	287
	(1,257)	(1,539)	(2,796)
Change in net interest income	$2,558	($1,828)	$730

Net loan chargeoffs totaled $382,000 in the first half of 1992 compared to $580,000 in the first half of 1991. The allowance for loan losses as a percentage of outstanding loans (excluding mortgage loans held for sale) was 1.60% at June 30, 1992, 1.72% at December 31, 1991, and 1.52% at June 30, 1991.

The following table sets forth certain information concerning nonaccrual, past due, and restructured loans and other real estate owned:

(dollar amounts in thousands)	June 30, 1992	December 31, 1991	June 30, 1991
Nonaccrual loans	$5,532	$3,310	$3,895
Restructured loans	1,194	–	–
Accruing loans past due 90 days or more	2	515	15
	6,728	3,825	3,910
In-substance foreclosures	221	2,353	2,840
Other real estate owned (excluding in-substance foreclosures)	2,434	5,182	–
	$9,383	$11,360	$6,750
Percentage of average assets	3.56%	4.95%	3.02%

The Bank experienced a significant increase in nonperforming assets during 1991 as a result of the slowdown of the local real estate market. During 1992, the Bank has succeeded in reducing the level of nonperforming assets through the disposition of real estate owned and payoffs of nonaccrual loans. The majority of the nonaccrual loans at June 30, 1992 are secured by real estate, primarily consisting of single family residential homes. For further discussion of reduction of nonperforming and criticized assets, see Note 3 to the Consolidated Financial Statements.

The majority of the nonearning assets originated from speculative real estate acquisition, development, and construction loans. During the last two years, the Bank has substantially reduced the origination volume of real estate construction loans in an effort to minimize its concentration of risk and diversify its loan portfolio. The level of speculative real estate loans at the Bank has declined from $83 million and 59% of total loans at December 31, 1990 to $20 million and 15% of total loans at June 30, 1992. The Bank plans to continue to reduce the outstanding balance of speculative real estate loans by pursuing payoffs and limiting the origination of these types of loans. For additional discussion of the reduction of speculative acquisition, development and construction loans, see Note 3 to the Consolidated Financial Statements.

Management is of the opinion that the allowance for loan losses is maintained at an adequate level for known and anticipated future risks inherent in the loan portfolio. However, the California economy has shown signs of weakness since the third quarter of 1990, through 1991 and into 1992, and the Bank's loan portfolio, which includes approximately $64 million in real estate loans representing approximately 50% of the portfolio, could be adversely affected if California economic conditions and the real estate market in the Bank's market area continue to weaken. The effect of such events, although uncertain at this time, could result in an increase in the level of nonperforming loans and the level of the allowance for loan losses which could adversely affect the Company's and the Bank's future growth and profitability and its compliance with the terms of the Memorandum of Understanding discussed in Note 3 to the Consolidated Financial Statements.

Other income increased $1,041,000 (31.3%) in the first half of 1992 and $571,000 (25.1%) in the second quarter of 1992 as compared to the corresponding periods in 1991. Other income is produced primarily by the operations of Western Sunrise in the form of gains on loan sales and servicing fees on mortgage loans. The mortgage operations have continued to benefit from a favorable interest rate environment which has encouraged the refinancing of existing mortgage loans. Western Sunrise sold $456.2 million in mortgage loans resulting in an increase in gains on loan sales of $1,529,000 in the first six months of 1992 and sold $255.5 million in loans resulting in an increase in gains of $1,089,000 in the second quarter of 1992.

The following table sets forth certain financial information concerning the consolidated mortgage banking operations of the Company during the three and six months ended June 30, 1992 and 1991:

(dollars amounts in thousands)	Three months ended June 30, 1992	1991	Six months ended June 30, 1992	1991
Total mortgage loan fundings	$218,646	$158,516	$455,157	$252,318
Total mortgage loan sales	$255,489	$145,308	$456,159	$231,358
Total gains on mortgage loan sales	$2,427	$1,329	$3,577	$2,039

Service charges and fees include loan servicing fees, service charges on deposit accounts, and other customer service fees. An increase in fees derived from the Company's mortgage loan servicing portfolio provided the increase in service charges and fee income in the first half and second quarter of 1992 as compared to the same periods in 1991. The servicing portfolio totaled $578.0 million and $346.9 million at June 30, 1992 and 1991, respectively. A loss on sale of investment securities of $41,000 resulted from the final disposition in January of the government securities mutual funds purchased by the Bank in 1987.

Salaries and employee benefits expense for the Company increased $755,000 (22.1%) and $362,000 (22.1%) for the six and three months ended June 30, 1992. The growth in employee expense resulted from the strong demand for mortgage loans during the first half of 1991. The full-time equivalent employees at Western Sunrise increased from 70 in June 1991 to 112 in June 1992 in response to the additional mortgage loan demand and compensation tied to mortgage loan volume increased along with the loan fundings.

In the first six months of 1992, occupancy expense and equipment expense increased by $185,000 (30.5%) and $157,000 (45.0%), respectively. The additional occupancy expense related to the rental of office space in Rancho Cordova and Walnut Creek to accommodate the expansion of Western Sunrise operations and the amortization of improvements made to the Bank operations facility. The increased equipment expense is attributable to depreciation of upgrades and enhancements made to the Company's banking and mortgage servicing data processing environment during the second half of 1991.

During 1992, other expenses increased $1,365,000 (78.4%) in comparison to the first half of 1991 and $628,000 (56.5%) in comparison to the second quarter of 1991. The components of other expenses are provided below for the second quarter and the first half of 1992 and 1991:

	Three months ended June 30,		Six months ended June 30,	
	1992	1991	1992	1991
Stationery and supplies	$124	$118	$211	$208
Communications	188	106	355	212
Professional fees	287	129	425	233
Deposit insurance assessments	113	90	226	168
Outside service fees	244	177	791	272
Data processing and correspondent fees	117	24	192	50
Insurance premiums	188	52	91	75
Loan collection and OREO expense	52	50	291	75
Litigation reserves	80	180	80	180
Advertising and marketing	62	37	116	74
Other	285	149	329	195
	$1,740	$1,112	$3,107	$1,742

The principal reasons for the increase in other expenses were fees paid to outside vendors to perform banking services for Bank customers and additional loan collection costs related to nonperforming loans. Other outside service fees include amounts paid to outside vendors to provide accounting, data processing, courier and other deposit related services provided to Bank customers primarily in the real estate related services industry. These costs are incurred by the Bank in relation to the volume of noninterest bearing deposits maintained by such customers as well as the profitability of each customer relationship.

PART II OTHER INFORMATION

ITEM 1 - LEGAL PROCEEDINGS

The discussion of legal proceedings and claims with regard to pension accounts set forth in Note 2 to the Consolidated Financial Statements included in this Report is hereby incorporated by reference.

ITEM 6 - EXHIBITS AND REPORTS ON FORM 8-K

(a) No exhibits required.

(b) One report on Form 8-K was filed during the three months ended June 30, 1992, as described below:

1) Report on Form 8-K dated April 22, 1992 regarding the letter of intent entered into by the Company to sell Western Sunrise Mortgage Corporation.

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

SUNRISE BANCORP

Date: August 13, 1992

/s/ James E. Beckwith
James E. Beckwith
Senior Vice President and Chief Financial Officer
(Signing on behalf of the registrant and as principal financial officer and chief accounting officer).